Revenue

BUSINESS PLAN 2004-07

ACCOUNTABILITY STATEMENT

The Business Plan for the three years commencing April 1, 2004 was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as of February 27, 2004 with material economic or fiscal implications of which I am aware have been considered in preparing the Business Plan.

The Ministry's priorities outlined in the Business Plan were developed in the context of the government's business and fiscal plans. I am committed to achieving the planned results laid out in this Business Plan.

[original signed]

Greg Melchin, *Minister of Revenue*
March 2, 2004

THE MINISTRY

The Ministry of Revenue includes the Department of Revenue, Alberta Securities Commission, a provincial corporation and the following five regulated funds: Alberta Heritage Savings Trust Fund, Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Scholarship Fund, Alberta Heritage Science and Engineering Research Endowment Fund and Alberta Risk Management Fund.

The Department has five main areas: Tax and Revenue Administration, Investment Management, Risk Management, Investment Administration, and Policy and Strategic Planning. The Alberta Securities Commission is the regulatory agency responsible for overseeing the capital market in Alberta.

Revenue is responsible for managing the investments of the Province of Alberta, developing tax and revenue policy within the province, administering tax programs and minimizing the risk of loss of public assets.

LINK TO THE GOVERNMENT STRATEGIC BUSINESS PLAN

The following table identifies where the Ministry Business Plan supports the Goals and Opportunities of the Government of Alberta Strategic Business Plan.

Government 3-year Business Plan	Government 20-year Strategic Plan	Revenue 2004-07 Business Plan
• Goal 1- Albertans will be healthy • Goal 2 - Albertans will be well prepared for lifelong learning and work	Opportunity 4 - Making Alberta the best place to live, work and visit Opportunity 2 - Leading in learning	• Investment policies (Goal 2) and superior investment returns (Goal 5) for government endowment funds
• Goal 8 - Alberta will have a financially stable, open and accountable government	Opportunity 4 - Making Alberta the best place to live, work and visit	• Revenue structure (Goal 1) and revenues collected (Goal 3) • Investment policies (Goal 2) and superior investment returns (Goal 5) for the Heritage Fund. • Proactively managed risk (Goal 8).
• Goal 7 - Alberta will have a prosperous economy • Goal 9 - Alberta will be a fair and safe place to work, live and raise a family	Opportunity 3 - Competing in a global marketplace Opportunity 4 - Making Alberta the best place to live, work and visit	• Revenue structure (Goal 1) • An effective securities regulatory system (Goal 9)

VISION

A province where government revenue policy and administration reflect the values of Albertans, balance present and future needs, and contribute to a stable environment for the generation of wealth for all Albertans.

MISSION

To provide prudent and innovative revenue, investment and risk management and to regulate and foster capital markets in Alberta.

CORE BUSINESSES

Core Business 1: Long-term Revenue and Investment Policy
- Goal 1 - A revenue structure that meets Alberta's needs and is consistent with Albertans' values
- Goal 2 - Investment policies that will provide the greatest financial returns for current and future generations of Albertans

Core Business 2: Manage Revenue Programs
- Goal 3 - Revenues due to the province are collected fairly, efficiently and effectively
- Goal 4 - Excellence in client service

Core Business 3: Manage and Invest Financial Assets
- Goal 5 - Superior investment returns subject to client-defined objectives and policies
- Goal 6 - Excellence in client service
- Goal 7 - An effective investment management organization

Core Business 4: Manage Risk Associated with Liability Exposure and Loss of Public Assets
- Goal 8 - Proactively managed risk

Core Business 5: Regulate and Foster Alberta's Capital Market
- Goal 9 - An effective, efficient and streamlined securities regulatory system

SIGNIFICANT OPPORTUNITIES AND CHALLENGES

Volatile capital markets have a direct impact on the income of government investment funds. If markets are weak for extended periods the solvency of pension plans can be affected over the long term, and endowment funds must review their expenditure plans for sustainability.

Economic conditions can also impact the growth and volatility of tax and other revenue sources, so revenue needs must be managed. In addition, non-compliance by taxpayers can lead to revenue loss.

In managing liability exposure and the risk of loss of public assets, the Ministry must balance its mix of insurance and self-insurance, and the costs and risks the government must bear in executing this responsibility.

The Ministry faces challenges in regulating and fostering Alberta's capital market. Investor protection has to be balanced with the ability of firms to raise capital. It is also necessary to guard against unnecessary duplication of regulation to ensure capital formation in Canada is not adversely affected, while preserving the ability to respond to regional needs.

STRATEGIC PRIORITIES 2004-07

Through the Ministry's review of external and internal challenges, the strategic priorities described below have been identified. These are in addition to the important ongoing core activities of the Ministry.

1. Revenue Management Framework **Linkage: Goal 1**	Continue development of a revenue management framework to contribute to sound strategic decision-making about Alberta's long-term revenue structure and policy.
2. Endowment Fund **Linkage: Goals 1 and 2**	Strengthen the Alberta Heritage Savings Trust Fund and other government endowment funds.
3. Investment Organization **Linkage: Goals 5, 6 and 7**	Develop Alberta Investment Management to better meet the needs of investment clients including government endowment funds and public sector pension funds.
4. Securities Regulation **Linkage: Goals 9 and 10**	Lead and actively promote the development and implementation of an efficient and cost-effective interprovincial system of securities regulation.
5. Tax Administration **Linkage: Goals 3 and 4**	Identify and address program areas where there is high risk of non-compliance.

CORE BUSINESSES, GOALS, STRATEGIES AND MEASURES

Core Business One: Long-Term Revenue and Investment Policy

GOAL ONE

A revenue structure that meets Alberta's needs and is consistent with Albertans' values

What it means

The Government needs to ensure that its revenue structure maximizes productivity and wealth generation, while providing adequate funds for the services that Albertans expect. Through a revenue management framework, revenue and investment policies will be designed to maximize productivity and wealth generation while preserving and enhancing the quality of life for Albertans. In exercising its leadership role for this initiative, Revenue will continue to monitor Alberta's revenue competitiveness in a national and international context. The department will also work with stakeholders to review revenue policy issues on an ongoing basis.

Strategies

- Develop and maintain a revenue management framework including long-term revenue projections and analysis of Alberta's revenue sources.
- Work with other ministries to develop and implement long-term revenue strategies.
- Strengthen the Alberta Heritage Savings Trust Fund and other endowment funds.
- Monitor Alberta's revenue competitiveness in a national and international context.
- As affordable, complete implementation of the Business Tax Plan to reduce the general corporate income tax rate from 11.5% to 8%.

Performance Measures

	Last Actual (2002-03)	Target 2004-05	Target 2005-06	Target 2006-07
Provincial tax load for a family of four[1]	Lowest in Canada		Lowest in Canada	
Provincial tax load on businesses[1]	Third Lowest in Canada		Lowest in Canada	

1 Shared Measure with Alberta Finance

GOAL TWO

Investment policies that will provide the greatest financial returns for current and future generations of Albertans

What it means

Prudent approaches to savings, including appropriate distributions of income, are an important aspect of a sustainable future. Investment policies, such as how much to invest in equities versus bonds, are the major determinants of an investment fund's performance over time. Alberta Revenue is responsible for the investment policies of the Alberta Heritage Savings Trust Fund, and other government endowment funds.

Strategies

- As affordable, ensure that the Alberta Heritage Savings Trust Fund grows with inflation over time.
- Work with other ministries and foundations on spending rules for other endowment funds.
- Develop and implement a rigorous analytical framework for determining asset allocation policies.
- Develop a framework to diversify risk and enhance expected returns of the Heritage Fund and other endowment funds.

Performance Measure

	Last Actual	Target 2004-05	Target 2005-06	Target 2006-07
Five-year market value rate of return of the Heritage Fund investment policy benchmark compared against Consumer Price Index (CPI).	New	Equal to or better than CPI plus 4.5%		

Core Business Two: Manage Revenue Programs

GOAL THREE

Revenues due to the province are collected fairly, efficiently and effectively

What it means

The Department of Revenue through the Tax and Revenue Administration Division (TRA) collects revenue owing to the Province, administers provincial tax laws, makes payments of refunds and rebates and provides information to stakeholders, taxpayers and claimants. Collecting revenues *fairly* means that all taxpayers and claimants are treated with respect; *efficiently* means that the Department of Revenue provides excellent value for money spent; and *effectively* means that revenue losses due to tax evasion are minimized. As part of its responsibilities, TRA provides expertise to other ministries on initiatives with revenue implications. The department also provides support to taxpayers to ensure returns are submitted accurately the first time.

Strategies

- Implement tax changes included in Alberta's tax plan.
- Identify and address program areas where there is high risk of non-compliance.

Performance Measures

	Last Actual (2002-03)	Target 2004-05	Target 2005-06	Target 2006-07
Percentage of tax accounts with no monies owing	95.6 %	96%	96%	96%
Ratio of amounts added to net revenue to costs of administration	12.3:1	12:1	12:1	12:1

GOAL FOUR

Excellence in client service

What it means

Albertans expect top-notch service from the tax administration. Excellence in client service means understanding and then meeting or exceeding client expectations. It is important that clients are satisfied with our administration of tax and rebate programs and are able to provide feedback on areas where improvements can be made.

Strategies

- Implement e-business solutions to improve client service.
- Consult with Albertans through surveys and meetings to determine service expectations.
- Work with Canada Customs and Revenue Agency and provinces to harmonize tax programs and processes.

Performance Measure

	Last Actual (2002-03)	Target 2004-05	Target 2005-06	Target 2006-07
Client satisfaction with tax administration	88.7 %	85%	85%	85%

Core Business Three: Manage and Invest Financial Assets

GOAL FIVE

Superior investment returns subject to client-defined objectives and policies

What it means

Once clients have determined investment policies, Alberta Investment Management can enhance returns relative to the returns that would be earned on a passively invested portfolio (e.g. Canadian equities invested in the S&P/TSX index).

Strategies

- Develop innovative strategies to enhance investment product returns.
- Develop the capability, and innovative strategies, to enhance returns at the total fund level.
- Implement an improved risk management framework.
- Develop techniques to implement tactical market decisions quickly.

Performance Measure

	Last Actual (2002-03)	Target 2004-05	Target 2005-06	Target 2006-07
Five - year weighted average market value rate of return for endowment funds compared against the weighted average policy asset mix rate of return (benchmark) for endowment funds.	Benchmark plus 0.4% (for Heritage Fund only)	Benchmark plus 0.5% (new benchmark for all Endowment Funds)		

GOAL SIX

Excellence in client service

What it means

Driven by a client focus, Alberta Investment Management strives to be innovative and to exceed expectations. Investment clients are asked to provide their input to long-term plans and to identify new business opportunities. Alberta Investment Management will continue to provide strategic support to help clients set investment objectives, policies and risk guidelines.

Strategies

- Improve timeliness and quality of market intelligence and client-related research.
- Improve information delivery mechanisms to be more timely and flexible, such as electronic service delivery.

Performance Measure

	Last Actual	Target 2004-05	Target 2005-06	Target 2006-07
Client satisfaction with services provided	New	80%	80%	80%

GOAL SEVEN

An effective investment management organization

What it means Alberta Investment Management strives to be among the best public sector investment organizations. By enhancing processes and utilizing industry best practices, Alberta Investment Management provides a value added and cost-effective investment service for clients.

Strategies

- Improve the technology platform including enhancing data integration, risk measurement and implementing a straight through processing environment to keep pace with evolving industry standards.
- Strengthen the governance of the investment organization.

Performance Measure

	Last Actual	Target 2004-05	Target 2005-06	Target 2006-07
Straight Through Processing (STP) of investment transactions as measured by percent of investment transactions with external parties transmitted electronically to custodian on trade date	New	80%	85%	90%

Core Business Four: Manage Risk Associated with Liability Exposure and Loss of Public Assets

GOAL EIGHT

Proactively managed risk

What it means The Risk Management and Insurance Division (RMI) administers a program to protect, secure and preserve public assets against risk of significant accidental loss. RMI provides services to ministries to help them identify, measure, control and finance their risk. The program serves all entities subject to the *Financial Administration Act*. RMI also administers a program of self-insurance and purchased insurance.

Strategies

- Work with Justice and other ministries on innovative strategies to resolve claims against the Crown.
- Assist Finance in the development of an enterprise risk management framework.
- Advise on risk allocation with private sector partners.
- Implement new technology to improve claims management.

Performance Measures

	Last Actual (year)	Target 2004-05	Target 2005-06	Target 2006-07
Cost of claims (insurance premiums plus self-insured losses)	$10,330,000 (2002-03)	$8,150,000	$8,250,000	$8,350,000
Satisfaction with the services provided by the division (survey issued every 2 years)	81% (2001-02)	n/a	80%	n/a

Core Business Five: Regulate and Foster Alberta's Capital Market

GOAL NINE

An effective, efficient and streamlined securities regulatory system

What it means

An effective, efficient and streamlined securities regulatory framework is key to a strong and vibrant economy. It assists in the development of strong national and local capital markets and promotes the interests of both issuers seeking capital and investors providing that capital through their investment dollars.

Strategies

- Lead and actively promote the development and implementation of an efficient and cost effective interprovincial system of securities regulation.
- Lead the development of highly harmonized securities legislation that could be adopted across Canada.
- Ensure that market regulation meets the specific needs of Alberta firms and investors.
- Work with other ministries to develop strategies to increase opportunities for Alberta firms and investors.

Performance Measures

	Last Actual	Target 2004-05	Target 2005-06	Target 2006-07
Interprovincial system of securities regulation	New	Established	Expanded	Expanded
Harmonized securities legislation	New	Proposal developed	Legislation adopted	–

EXPENSE BY CORE BUSINESS

(thousands of dollars)

	Comparable 2002-03 Actual	Comparable 2003-04 Budget	Comparable 2003-04 Forecast	2004-05 Estimates	2005-06 Target	2006-07 Target
Long-term Revenue and Investment Policy	857	1,572	1,295	2,204	2,263	2,087
Manage Revenue Programs	84,762	42,348	52,622	45,992	46,717	47,690
Manage and Invest Financial Assets	90,428	122,255	98,871	112,634	118,183	119,955
Manage Risk associated with Liability Exposure and Loss of Public Assets	11,773	8,080	15,922	9,940	10,144	10,251
Regulate and Foster Alberta's Capital Market	19,024	19,621	18,650	21,281	22,004	22,752
MINISTRY EXPENSE	206,844	193,876	187,360	192,051	199,311	202,735

MINISTRY STATEMENT OF OPERATIONS

(thousands of dollars)

	Comparable 2002-03 Actual	Comparable 2003-04 Budget	Comparable 2003-04 Forecast	2004-05 Estimates	2005-06 Target	2006-07 Target
REVENUE						
Internal Government Transfers*	5,030	21,630	21,630	200	200	200
Personal and Corporate Income Taxes	6,852,823	7,050,799	6,409,218	7,041,956	7,413,840	7,856,007
Other Taxes	1,430,255	1,431,692	1,463,339	1,491,731	1,531,444	1,571,764
Investment Income	(1,034,092)	496,170	1,089,000	700,010	798,964	832,913
Premiums, Fees and Licences	15,378	17,100	16,090	18,430	18,994	19,370
Other Revenue	16,778	19,673	18,136	22,775	25,884	27,462
MINISTRY REVENUE	7,286,172	9,037,064	9,017,413	9,275,102	9,789,326	10,307,716
EXPENSE						
Program						
Revenue and Investment Policy	468	1,176	877	1,797	1,853	1,672
Tax and Revenue Collection	83,206	40,763	50,949	44,364	45,076	46,030
Investment	89,067	120,868	97,407	111,210	116,747	118,502
Government Risk Management and Insurance	11,384	7,684	15,503	9,533	9,733	9,836
Regulation of Capital Markets	18,830	19,423	18,441	21,078	21,799	22,544
Ministry Support Services	3,889	3,962	4,183	4,069	4,103	4,151
MINISTRY EXPENSE	206,844	193,876	187,360	192,051	199,311	202,735
Gain (Loss) on Disposal of Capital Assets	(183)	-	-	-	-	-
NET OPERATING RESULT	7,079,145	8,843,188	8,830,053	9,083,051	9,590,015	10,104,981

* Contributions to the Alberta Heritage Science and Engineering Research Endowment Fund from the Department of Innovation and Science have been restated for the comparable 2003-04 budget to reflect the actual reporting method used.

CONSOLIDATED NET OPERATING RESULT

(thousands of dollars)

	Comparable 2002-03 Actual	Comparable 2003-04 Budget	Comparable 2003-04 Forecast	2004-05 Estimates	2005-06 Target	2006-07 Target
Ministry Revenue*	7,286,172	9,037,064	9,017,413	9,275,102	9,789,326	10,307,716
*Inter-ministry consolidation adjustments**	(29,748)	(45,543)	(45,381)	(24,418)	(24,430)	(24,151)
Consolidated Revenue	7,256,424	8,991,521	8,972,032	9,250,684	9,764,896	10,283,565
Ministry Expense	206,844	193,876	187,360	192,051	199,311	202,735
Inter-ministry consolidation adjustments	(27,901)	(28,118)	(29,046)	(29,620)	(31,415)	(32,525)
Consolidated Expense	**178,943**	**165,758**	**158,314**	**162,431**	**167,896**	**170,210**
Gain (Loss) on Disposal of Capital Assets	(183)	-	-	-	-	-
CONSOLIDATED NET OPERATING RESULT	7,077,298	8,825,763	8,813,718	9,088,253	9,597,000	10,113,355

* Contributions to the Alberta Heritage Science and Engineering Research Endowment Fund from the Department of Innovation and Science have been restated for the comparable 2003-04 budget to reflect the actual reporting method used.